

IMPORTANT INFORMATION FOR HRM STAFF

FLYER

058A-70
August 2, 1995

TO: Chief, HRM

Subj: The Use of Section 7431 Special Pay for Retirement Purposes

Information about how Section 7431 special pay is used in computing the high-3 average salary of a retiring physician or dentist was provided in Human Resources Management Letter (HRML) No. 05-94-17, dated June 13, 1994.

We have received calls about the application of Section 7431 special pay in the case in which retirement deductions were not withheld from Section 4118 special pay. In such a case, Section 4118 special pay cannot be used when determining the retiree's high-3 average salary. The following example shows the application of Section 7431 special pay. For purposes of presenting this example, the basic pay and special pay of the "example" physician below will remain static. The term "physician" used in the example refers both to physicians and dentists.

Example: Physician signed a 4-year special pay agreement on July 14, 1991, and a 2 year agreement on July 14, 1995. Physician special pay was \$10,000 under Section 4118 prior to July 14, 1991.

| | |
|-------------------|------------------|
| Base Salary: | \$ 85,000 |
| 7431 Special Pay: | <u>\$ 30,000</u> |
| Total: | \$115,000 |

QUESTION: The physician, who has met the 15-year service requirement, retires on July 13, 1997 after having completed two special pay agreements of 4 years and 2 years (total service of 6 years). Retirement deductions were not withheld from Section 4118 special pay. What part of special pay may be used for high-3 average salary purposes?

ANSWER: Since the physician completed 6 years of physician service after July 13, 1991, 75 percent of the difference between Section 4118 and Section 7431 special pay may be used for high-3 average salary purposes. There is no refund liability. The high-3 average salary period runs from July 14, 1994 through July 13, 1997; entitlements for each of the high-3 years are computed identically as outlined below:

| | |
|---|---|
| From July 14, 1994 through July 13, 1995: | Base Salary \$85,000 + \$15,000 Special Pay |
| From July 14, 1995 through July 13, 1996: | Base Salary \$85,000 + \$15,000 Special Pay |
| From July 14, 1996 through July 13, 1997: | Base Salary \$85,000 + \$15,000 Special Pay |

Special Pay Component

Because retirement deductions were not withheld from Section 4118 special pay, you cannot credit Section 4118 special pay that was in effect as of July 13, 1991. The employee is entitled to credit \$15,000 of special pay toward high-3 average salary [75 percent of the difference between Section 7431 (\$30,000) and Section 4118 (\$10,000); a difference of \$20,000].

TOTAL WITH BASIC PAY: \$100,000 (\$85,000 + \$15,000) EARNED DURING EACH YEAR OF THIS THREE YEAR PERIOD AND USED IN AVERAGE SALARY CALCULATION

IF RETIREMENT DEDUCTIONS HAD BEEN WITHHELD FROM SECTION 4118 SPECIAL PAY, TOTAL BASIC PAY WOULD HAVE BEEN \$110,000. SEE EXAMPLE 6 IN HRML NO. 05-94-17.

Bruce